CHAPTER - XI

SUMMARY AND CONCLUSIONS

A recapitulation and reiteration of the main observations of this study and the conclusions derivable therefrom are presented in this chapter. Also, in the light of our enquiry, we have suggested policy measures and adaptations in the fulfilment of developmental objectives.

Resource Conservation and Management

The natural resource base and operative economic structure of a State may be regarded as its growth and revenue potential as well as its public expenditure prospect. Karnataka is endowed with a rich and varied natural resource base. In its large population with energy and skill, the State has its main growth potential. The Economic structure is mainly agrarian. Infrastructural facilities in the form of irrigation, power and transport are inadequate. As evidenced in the green revolution in Bijapur and Raichur districts adoption of an appropriate dry farm technology should go a long way in complementing irrigation. To meet the fast increasing needs for power, thermal and nuclear sources of energy are to be tapped on priority basis. Railways and ports need to be strengthened. Rural needs are to be urgently met with to reduce the rural urban imbalances. Resource use and their efficient management and conservation are a compelling part of our development effort. However, resource management and
conservation techniques with an eye on productivity increase has not yet been fully adopted.

**A New look at Fiscal Relations**

The federal constitutional arrangement in India divides the functions and revenue powers between the Union and the State mainly on grounds of efficiency. The resulting fiscal imbalances are sought to be remedied through resource transference from the Union to the State. The transfer of resources is made on the recommendations of the Finance Commission and the Planning Commission which has led to constitutional grants vs. plan grants and such other controversies. Under the changed circumstances Union-State financial relations in India appear to be under strain and need a comprehensive look.¹

**Changes in Revenue Composition**

A detailed analysis of revenues of the State under State's own tax and non-tax revenue and revenue transferred from the Centre indicate that revenue system of the State has undergone perceptible changes. It is observed that the State revenues have registered an impressive growth and the revenue significance

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¹ Government of India recently set up a Commission to review Centre-State Relations under the Chairmanship of Mr. Justice R.S. Sarkaria
of indirect taxes has markedly increased. The State's tax effort also reached substantially a higher level than that for All-States even though the per capita SDP is less than All-States average. However, State's own direct taxes are not many and are subject to constraints. Decline in revenue significance of these taxes is gradual and the day may not be far off when the State direct-tax base might completely disappear.

State's own Revenues

State's own taxes are the most important component of State's revenue. Prominent among them are sales tax, state excise duties, motor vehicles tax and entertainment tax. Sales tax continues to dominate the State's tax system. Yield from state excise duties is bound up with the State prohibition policy. It appears that most of the state excise burden is borne by the poorer sections. Motor vehicles tax turned out to be more buoyant in recent years. Entertainment tax is proved to be of considerable revenue potential. Profession tax which was introduced in the mid-seventies promises to be a good source. Mounting tax arrears and considerable tax evasion are a disconcerting feature of tax administration in the State.

2 Recently there has been an erosion of the source. The State government decided to exempt salaried persons whose basic pay does not exceed Rs. 1,200 p.m. from profession tax w.e.f. April 1, 1983, and is said to be thinking of raising the exemption limit further.
Delays in tax assessments and recovery of tax arrears cause considerable strain in the State finances. Tax administration needs sustained efforts to augment the revenue flow and to plug loopholes to prevent revenue leakages. Sales tax needs reforms especially in removing the legal and administrative snags. There is also some scope to revise the tax rates on luxury consumption. Likewise, excise duties may also be revised upwards on costly liquors. Taluk-wise auctioning of toddy shops instead of District-wise may be suggested. Motor vehicles taxation may be rationalised by reducing the existing slabs into a smaller number. Rate of tax on private motor cars may be further enhanced. Tractors and trailers used for agricultural purposes may also be brought under the tax net, as they are owned by the rich. A more comprehensive definition of entertainment tax may be attempted to bring all forms of entertainment within the purview of the tax. Introduction of sports tax on entry tickets of some popular games in 1983-84 budget is a welcome levy. Land revenue and agricultural income tax may be continued, until they are replaced by a more progressive system of agricultural taxation to mop up the surpluses in the agricultural sector. Any move to abolish or reduce agricultural taxation does not appear to be economically sound. Profession tax need not have the exemption limit higher than Rs. 600/- as monthly income.
Significance of State's own non-tax revenue though remains substantial declined over the years. Receipts from economic services and interest account form the most part of State's own non-tax revenue. Under economic services forests and industries are prominent. There is a vast scope for improving the revenue productivity of departmental undertakings. This has to be achieved not so much by increasing the capacity but by increasing the productivity of already created assets. Taxation having reached a high level already, higher revenue productivity of public enterprises is the only effective way out for augmenting the State's own revenue.

Union Grants Formula

Revenue transferred from the Centre to the State are in the form of share in central taxes and grants-in-aid. The taxes shared are income tax, union excise duties and estate duty on property other than agricultural land. Grants-in-aid comprise statutory grants, plan grants and other discretionary grants from several Ministries like Agriculture, Health, Housing etc. While the share in central taxes and statutory grants are decided on the recommendations of the Finance Commission, Plan grants are recommended by the Planning Commission in the context of the needs of both Central and State Governments.

Karnataka's share in income tax remained less buoyant than the State's own tax revenue as well as State's own tax on income. The share in union excise duties on the other hand
proved to be the most buoyant of all the sources of revenue. Karnataka was not eligible to receive any statutory grants since 1974-75. Plan grants increased with the increasing size of successive Plans. This necessitated a larger resource mobilisation effort on the part of the State government and also led to a large increase in loan assistance to the State from the Centre. The relative position of Karnataka with respect to revenue transfer from the Centre suggests that a more equitable formula of distribution States inter se is yet to be evolved. A mix of population, per capita income and backwardness index appears to be more suitable for determining discretionary revenue transfers.

**Changing Expenditure Pattern**

There has been manifold increase in the public expenditure of the State which is however less plausible at constant prices. The growth of public expenditure quickened in the earlier Plan periods but the tempo declined IV Plan onwards. Developmental expenditure shows a higher growth rate than non-developmental expenditure. Larger part of the public expenditure continues to be on economic services though the emphasis on social and community services has increased during the last ten years. Health and social welfare are given a higher priority than education. And in the education sector, higher education seems to have received more attention. Welfare thrust is discernible
under the 20-Point programme. Among economic services emphasis is on agriculture and allied services, water and power development. Industry, mining, transport and communication appear to have suffered in comparison. A rural emphasis in public expenditure appears to be emerging at long last.

Although non-developmental expenditure of the State is bound to increase with increasing developmental expenditure, it is necessary to reduce the portion of non-developmental expenditure in total expenditure to the extent possible. Debt services and administrative services are more important items of non-developmental expenditure of the State. A large accumulation of state debt over the years mainly for developmental purposes led to the continuous increase in expenditure on debt services. Expansion as well as modernisation of administrative machinery to meet the growing public needs increased the expenditure on administrative services. It may, however, be noted that the relative expenditure on administrative services, fiscal services and others are steadily reduced and the State government has economised on overall nondevelopmental expenditure.

**Favourable Debt Position**

The State debt of Karnataka shows a very large increase over the years. This is mainly due to allout development effort by the State government and a correspondingly large
increase in plan assistance to the State by the Centre. The debt burden of the State also shows an increase during the first decade after the reorganisation but the trend is reversed in subsequent years. A healthy aspect of the State debt and State finances in Karnataka is that the assets accumulated by the State during the period far exceeds the outstanding State debt. The State debt management appears satisfactory. The public debt position of the State vis-a-vis other States shows that Karnataka enjoys a mere favourable position.

**Paralysed Local Finances**

Local finance is an integral part of State finances to the extent the local governments are financially dependent on the State governments for performing their wide ranging functions. The most important source of income to local governments in Karnataka is grants given by the State government. After the abolition of octroi the most significant source of tax income is tax on property. Local governments incur most of their expenditure on water supply and public health services. The main problem of local finance is resource constraint and too much dependence on the State exchequer. This calls for a greater resource mobilisation effort as well as financial discipline on the part of the local bodies. The present dependence of these bodies on the State
government is injurious to governments at both state and local levels.

A Firmer Financial Policy

The financial policy pursued by the State may be viewed into three distinct phases. These phases are characterised by cautious, confident and more radical but somewhat less discreet approach respectively. The overall revenue policy of the State is designed to gather increasingly larger revenue through a structural change in the tax system and rationalisation of non-tax revenue.

However, more attention is paid to tax revenue and non-tax revenue has failed to contribute its bit to resource mobilisation and capital build-up. Expenditure policy has all through laid emphasis on economic development. Growth in non-development expenditure is held in check. In the early seventies there is a shift in emphasis in favour of development in human capital. In later seventies a welfare thrust to the benefit of Scheduled Castes and Scheduled Tribes and other weaker sections of society is discernible. The public debt policy of the Government appears fairly satisfactory. Budgetary planning, however, needs more accuracy in estimation and presentation. The overall budgetary position of the State depicts a somewhat strained financial position since late seventies which may deteriorate further unless effective corrective measures like
productivity criteria on social welfare expenditure and reduction in non-development expenditure, stricter vigilance and control in tax collection and more economic management of public enterprises with an immediate view to reduce the recurring losses are adopted.

In conclusion, it may be stated that the resource management and conservation techniques with a view to increasing productivity are to be evolved.

The Centre-State financial relations needs a new look particularly in respect of grants under Article 282.

Taxation having reached a high level already there is need to keep further taxation under check. However, it is submitted that there seems little justification in reducing the present level of direct taxation. Dropping away some taxes and immobilising some with a wide exemption base as in the case of octroi, agricultural income tax, land revenue, profession tax, etc., may be a populist adventure but fiscally self-defeating the long-term goal of socio-economic development, stability and self-reliance.

Non-tax revenue is to be garnered by productivity increase in public enterprises. For better productivity the proportion of administrative expenditure needs to be curtailed to a level suggested by the Administrative Reforms Committee. High
capital-output ratio in public sector is generally advantageous only to the urbanites in the organised sector.

Welfare administration needs a more refined programme of assistance to the really poor. As is evidenced in the recent studies in inequality and poverty, in Karnataka the overall public expenditure benefits appear to be class oriented and less egalitarian. Egalitarian policies are to be reinforced by reversal of price inflation and an equitable spread of public expenditure programme during the budgetary year emphasising thereby the physical target as against reaching the financial target at the closing of the budgetary year.

The impact and real benefit of public expenditure on welfare programme and also of categorical grants from the point of view of poverty removal, etc., needs a special assessment. Certain types of expenditure may not be productive in a strictly economic sense but they will have a psychological advantage in motivating the weaker sections of the community to desire for a better economic future. Utmost economy in public expenditure and stricter control on non-developmental expenditure are called for. It is proposed to limit the expenditure rise by a certain percentage points to increase in SDP. A State Public Expenditure Review Committee on the lines of Karnataka Taxation Review Committee-1981, is proposed by us.